

**MINUTES OF THE
UTAH TAX REVIEW COMMISSION**

Friday, April 22, 2005 – 1:00 p.m. – Room W125 House Building

Members Present:

Mr. M. Keith Prescott, Chair
Mr. David Crapo, Vice Chair
Sen. Lyle W. Hillyard
Sen. Brent Goodfellow
Rep. Wayne Harper
Mr. Mark K. Buchi
Ms. Janis A. Dubno
Ms. Kathleen Howell
Comm. Bruce Johnson

Members Absent:

Mr. Larry Barusch
Mr. Gary Cornia
Mr. Bruce Jones
Mr. Dixie Leavitt

Staff Present:

Mr. Bryant Howe, Assistant Director
Mr. Phillip V. Dean, Policy Analyst
Ms. Rebecca L. Rockwell, Associate General Counsel
Ms. Phalin L. Flowers, Legislative Secretary

Note: A list of others present and a copy of related materials can be found at www.le.utah.gov or by contacting the committee secretary, Phalin Flowers, at 538-1032. A recording of the meeting is available from the committee secretary.

1. TRC Business

Chair Prescott called the meeting to order at 1:05 p.m.

MOTION: Mr. Buchi moved to approve the minutes of the November 5, 2004 and February 11, 2005 meetings. The motion passed unanimously with Sen. Hillyard absent for the vote.

Sen. Goodfellow introduced himself as a newly appointed member of the TRC. He said that he is taking the seat of Ron Allen, who recently resigned from the Senate.

2. Review of TRC Study Items for 2005

Mr. Howe distributed and discussed "Utah Tax Review Commission 2005 Proposed Study Items." He noted that during the 2005 General Session, the Legislature enacted S.B. 53, "Land Value Tax Study," sponsored by Sen. Howard Stephenson. This bill directs the TRC to study the desirability and feasibility of establishing a land value tax system to fund highway improvements. He also distributed and discussed a letter from the Utah State Tax Commission addressed to Chair Prescott requesting that the TRC study Utah Code Ann. Title 59, Chapter 10, Part 2, relating to individual income taxes on trusts and estates.

Mr. Howe also distributed Utah Code Ann. Section 59-10-134. This section, and a similar section in Title 59, Chapter 7, Corporate Franchise and Income Taxes, provide a tax credit when a taxpayer purchases and installs certain renewable energy systems. These tax credits are scheduled to expire for taxable years beginning on or after January 1, 2007.

The TRC discussed upcoming meeting dates for the year. Priority study items will include: (1) the land value tax study required by 2005 General Session S.B. 53, "Land Value Tax Study"; (2) issues related to

the severance tax on oil and gas; (3) the imposition of the individual income tax on trusts and estates; (4) tax reform; (5) the renewable energy system tax credits; (6) the personal property tax; (7) sales and use tax exemptions; and (8) addressing clarifications or revisions to Title 59, Revenue and Taxation.

3. Land Value Tax Study

Mr. Larry Walters, Lincoln Institute of Land Policy, presented "Recapturing Value for Transportation Financing." He introduced the Lincoln Institute of Land Policy and described its plan to study land value taxation and land use policy. He also discussed several reasons and advantages for having a land value tax, or a land value recapture tax. He also noted that there are strong theoretical arguments for using proceeds from such a tax to fund highway improvements, as is contemplated in 2005 General Session SB 53, "Land Value Tax Study." Mr. Walters gave several examples where land value taxation has been implemented. He also described the reasons why it has failed or succeeded.

Sen. Goodfellow noted that nearly 70% of the land in Utah is owned by the federal government. This reduces the supply of land available for development.

Chair Prescott questioned whether the supply of land is actually fixed. He related examples when land is purposely designated as "open space" and therefore not available for development. Dr. Walters said that this is true and that for noneconomic reasons the "supply" of land can increase or decrease.

Mark Buchi questioned how farmland assessment practices and conservation easements would be affected by a land value tax system.

Mr. Walters emphasized that while there are strong theoretical reasons to adopt a land value tax system, there are significant administrative and political issues to resolve.

The TRC discussed creating a subcommittee that would study land value taxation during the interim and report to the TRC.

MOTION: Comm. Johnson moved to appoint Ms. Howell to chair the subcommittee to study land value taxation.

SUBSTITUTE MOTION: Ms. Howell moved to include as part of Comm. Johnson's motion the appointment of Mr. Cornia as a co-chair of the subcommittee to study land value taxation. The motion passed unanimously.

Mr. Buchi suggested that the Utah Farm Bureau and Nature Conservancy also be involved with this subcommittee.

Mr. Crapo emphasized that it is important for the subcommittee to articulate a compelling benefit for a land value taxation system, and that important issues include fairness and benefits.

Sen. Howard Stephenson addressed the TRC on his views regarding a land value recapture tax or land value taxation. Ms. Howell asked whether a land value tax system would replace or operate concurrently with the current property tax system. Sen. Stephenson replied that property that receives the highest benefit from a road or highway should bear a larger portion of the cost of that road or highway. This would apply to both existing and new roads and highways.

Sen. Hillyard asked whether there are groups that oppose a land value tax. Mr. Walters said that he is not aware of any organized opposition groups but emphasized that there are critical implementation issues regarding this tax that need to be carefully studied. Ms. Howell noted that collecting information about the market value of raw land may be difficult because there are no state laws requiring the disclosure of sales prices.

4. Update on Oil and Gas Severance Tax Issues

Mr. Howe presented an update on the oil and gas severance gas study. He distributed and discussed "Comparison of State Severance Taxes on Oil and Gas."

Mr. Lee Peacock, Utah Petroleum Association, presented an update on questions raised in past meetings regarding the oil and gas industry. He said that his association is collecting information about production costs in oil and gas producing states. He also said that the TRC may wish to consider making technical revisions to the oil and gas severance tax statutes to clarify certain provisions. Mr Peacock also said that during the 2005 General Session, the Legislature considered, but did not enact, S.B. 63, "Severance Tax Amendments." This bill would have allocated a portion of the proceeds from the state oil and gas severance tax to the counties where the oil and gas is produced. The TRC may wish to review this legislation.

Mr. Howe distributed and discussed "Oil and Gas Severance Tax Revenues."

5. Other Business/Adjourn

Chair Prescott adjourned the meeting at 3:12 p.m.